

## Message Text

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FM AMEMBASSY LAGOS

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E.O. 11652: N/A

TAGS: EFIN, NI

SUBJECT: RESTRICTIONS ON MERCHANT BANK OPERATIONS IN NIGERIA

1. FMG HAS EXPRESSED DISAPPOINTMENT IN THE OPERATIONS AND PERFORMANCE OF MERCHANT BANKS IN NIGERIA AND HAS PROMULGATED NEW REGULATIONS DESIGNED QTE INDUCE THE MERCHANT BANKS TO PLAY THEIR PROPER ROLE UNQTE IN THE BANKING SYSTEM. PRIMARY CRITICISM IS THAT MERCHANT BANKS ARE QTE OPERATING AS COMMERCIAL BANKS UNQTE (AS EXPRESSED IN OBASANJO BUDGET SPEECH 31 MARCH 71) WHEN THEY SHOULD BE CHANNELLING MONEY INTO MEDIUM AND LONG TERM INVESTMENTS IN THE ECONOMY AND PROVIDING SERVICES IN CERTAIN SPECIALIZED AREAS NOT HANDLED BY COMMERCIAL BANKS.

2. NEW REGULATIONS AS SET FORTH BY MINISTRY OF FINANCE (MOF) (SOME OF WHICH APPLY TO COMMERCIAL BANKS AS WELL) INCLUDE REQUIREMENTS THAT MERCHANT BANKS WEIGHT THEIR PORTFOLIOS 90 PERCENT TOWARDS MATURITIES IN EXCESS OF ONE YEAR AND 70 PERCENT TOWARDS QTE PRODUCTIVE UNQTE SECTORS OF THE ECONOMY SUCH AS AGRICULTURE AND MANUFACTURING AT CONCESSIONARY RATES OF INTEREST (6 PERCENT TO 8 PERCENT AS OPPOSED TO A 10 PERCENT RATE ALLOWED FOR LOANS IN THE QTE NON-PRODUCTIVE SECTORS UNQTE). AT THE SAME TIME, MERCHANT BANKS LOSE THEIR STATUS AS AUTHORIZED DEALERS IN FOREIGN EXCHANGE AND CONSEQUENT EARNINGS ASSOCIATED WITH THIS ACTIVITY. WHILE PRECISE TIMING AND INTERPRETATION OF NEW REGULA-

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TIONS NOT YET SPELLED OUT, MERCHANT BANKS IN NIGERIA CONCERNED

THAT THEIR CONTINUED EXISTENCE IN JEOPARDY WITH FOREIGN EXCHANGE TRANSACTION INCOME REMOVED, LENDING AND LIQUIDITY RISKS INCREASED, AND INTEREST EARNINGS REDUCED.

3. WIDELY RUMORED AMONG MERCHANT BANKERS THAT NEW REGULATIONS ARE THE RESULT OF ASSIDUOUS LOBBYING BY COMMERCIAL BANKS WHO FEEL MERCHANT

BANKS SKIM OFF EASY PROFITS WITHOUT THE ATTENDANT PROBLEMS OF COMMERCIAL BANKS. WHILE AMERICAN INTEREST IN MERCHANT BANKING SECTOR OBVIOUS CHASE, CITIBANK, FNB CHICAGO, AND MORGAN REPRESENTED), MERCHANT BANKS TO DATE HAVE DECLINED TO FORM A UNITED FRONT AND TAKE WHAT MIGHT BE REGARDED AS AN UNAMERICAN POSITION, PREFERRED LOW-KEY INDIVIDUAL BANK MEETINGS WITH MOF OFFICIALS TO EXPLAIN MERCHANT BANK REACTIONS TO NEW REGULATIONS. MERCHANT BANKERS ARE ARGUING THAT THEY INDEED ARE SPECIALIST BANKERS DIFFERENT FROM COMMERCIAL BANKERS BUT THAT THEY HAVE TRADITIONALLY OFFERED FULLER RANGE OF SERVICES THROUGHOUT WORLD THAN THOSE FOR WHICH FMG GIVES THEM CREDIT AND THAT AS SPECIALIST BANKERS WITH SMALLER DEPOSIT BASE THEY HAVE RISK AND LIQUIDITY PROBLEMS AVOIDED BY COMMERCIAL BANKS.

4. COMMENT: COMMERCIAL BANK RESENTMENT OF MERCHANT BANKS APPARENTLY BASED ON MERCHANT BANKS SUCCESS IN IMPROVING ON SERVICES COMMERCIAL BANKS ALREADY OFFER AND CONSEQUENTLY TAKING BUSINESS FROM THEM.

RELATIVE MERCHANT BANK EFFICIENCY IN PROVIDING LETTERS OF CREDIT, FOREIGN REMITTANCES, AND RELATED TRADITIONAL SERVICES WHILE INDUSTRIAL ACTIONS BY STAFFS OF SOME COMMERCIAL BANKS CAUSED THEIR CLOSURE LED TO UNEXPECTED AMOUNT OF BUSINESS GOING TO MERCHANT BANKS AT EXPENSE OF COMMERCIAL BANKS. NEW REGULATIONS SEEN AS ATTEMPT FENCE OFF MERCHANT BANKS IN SPECIFIC, SPECIALIST CORNER OF BANKING BUSINESS. SINCE NEW REGULATIONS ALREADY PUBLICALLY ANNOUNCED, MERCHANT BANKS HAVE WORK CUT OUT FOR THEM TRYING TO SOFTEN REGULATIONS' IMPACT WITHOUT CAUSING FMG POLITICAL EMBARRASSMENT. EASUM

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## Message Attributes

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